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SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months period ended March 31, 2017

Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("*Sunshine*" or the "Company") for the three months ended March 31, 2017 is dated May 11, 2017. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three months period ended March 31, 2017 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.*

Overview

Sunshine is a major holder and a developer of Athabasca region oil sands resources with approximately 1.35 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2016 was approximately 2.21 billion barrels, a 0.31 billion barrels decrease from the December 31, 2015 resource evaluation. The Company also has 276 million barrels of proved plus probable ("2P") reserves and 379 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2016. The Company did not conduct an evaluation of its Carbonate assets given the current commodity price and the introduction of risk factors to the contingent resources, which would deem the Carbonates to be uneconomic. With approximately 1 million acres of oil sands and P&NG leases, the Company has significant commercial development potential. Phase I (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is on production and is ramping up to meet the designed plant capacity. The Athabasca region is the most prolific oil sands region in the Province of Alberta, Canada. Canada's oil sands represent the largest oil resource found in a stable political environment located in the western hemisphere and the third largest oil resource in the world, with an estimated 166 billion barrels of recoverable resource. Canadian oil sands represent the largest single source of supply of oil imported into the United States.

The Company's focus is on evaluating and developing its oil sands assets with the completion and operation of the 5,000 bbls/day Phase I commercial West Ells (the "Project"). When financing is available, the Company is planning to add an additional 5,000 barrels per day Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at March 31, 2017, the Company had invested approximately $1.26 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at March 31, 2017, the Company had $12.9 million in cash.

The Company relies on its ability to obtain various forms of financing and cash flow from operations to fund administration expenses and future exploration and development cost of its projects. The Company's ability to continue as a going concern is dependent on continuing operations and development in West Ells, marketing bitumen blends at favorable price, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that steps management will take will be successful. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

On September 30, 2015, the Company completed a voluntary delisting from the TSX. The Company's shares continue to be listed for trading on the Stock Exchange of Hong Kong Limited ("SEHK").

Operational Update

West Ells

On March 1, 2017, the Company achieved a key milestone. The Project commenced commercial production. Hence, effective March 1, 2017, the Company started recording revenue, expenses and depletion of the West Ells Project. For one month ended March 31, 2017, the average bitumen production was 1,796 barrels per day ("bbls/day"), steam to oil ratio ("SOR") was 4.8 at this early stage of steam-assisted gravity drainage ("SAGD") production. Diluent is blended at a 21% volumetric rate with the bitumen as part of the production process to create the marketable "Dilbit" blend product, and the average dilbit sales volume for March was 2,272 bbls/day.

Thickwood and Legend

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 bbls/day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2017. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, additional significant financing will need to be secured to proceed.

Muskwa and Godin Clastics Operations (Non-Operated 50% working interest)

A thermal single well pilot project application was submitted in July 2014, and approved on January 26, 2015. During the final quarter of 2014, Muskwa cold production wells were suspended by the joint venture partner due to low oil prices.

OUTLOOK

Due to the extensive damage associated with the disastrous wild fire in Fort McMurray in May 2016, start up at West Ells was interrupted and delayed. Significant progress has been achieved since then. On March 1, 2017, the West Ells Phase I project commenced commercial production. The West Ells Phase I project is expected to ramp up to its Phase I design capacity of 5,000 bbls/day. The Company continues to focus on carefully improving production performance and developing SAGD chambers, which will increase production at West Ells.

The oil and gas industry in North America continues to operate in a challenging commodity price environment. Due to market, instability and volatile commodity prices that have trended lower over past months. Sunshine continues to remain optimistic about long –term outlook for oil and gas commodity prices.

FINANCIAL AND OPERATRIONAL RESULTS

Production Volume

	For the three months ended March 31,	
(bbls/day)	**2017**	**2016**
Bitumen production [(1)]	1,582	-

Production Volume for the month of March 2017

(bbls/day)	**2017**	**2016**
Bitumen production [1]	1,796	-

1. Bitumen produced at oil sands projects is mixed with diluent and sold as "dilbit". Diluent volumes have been deducted in calculating bitumen production volumes

Bitumen production from West Ells for the one month and three months ended March 31, 2017 averaged 1,796 bbls/day and 1,582 bbls/day respectively. First Bitumen production from West Ells Project occurred in December 2015. Initial sales, royalties and expenses were capitalized during the start-up phase of the project which continued until February 28, 2017. Effective March 1, 2017 the project achieved commerciality. As a result, for March 2017 the related sales, royalties, diluent, transportation, and operating expenses together with depletion are now being recorded in the statement of comprehensive loss for the three months ended March 31, 2017.

Operating Netbacks

	For the three months ended March 31,	
($ thousands)	**2017**	**2016**
Realized Bitumen revenue[1]	1,915	-
Transportation	(1,153)	-
Royalties	(20)	-
Net bitumen revenues	742	-
Operating costs	(2,216)	-
Operating netback[2]	(1,474)	-

1. Blend sales net of diluent costs for the month of March 2017 only.
2. Operating netback is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The Operating netback for the three month ended March 31, 2017 was net loss of $1.5 million. The main contributing factors to the loss are the transportation and operating costs. Future transportation and operating costs should be reduced as production continues to ramp up at West Ells.

Bitumen Revenue

	For the three months ended March 31,	
($ thousands)	**2017**	**2016**
Dilbit Revenue	3,005	-
Diluent blended[1]	(1,090)	-
Realized bitumen revenue[2]	1,915	-

1. At West Ells purchased diluent was blended at a 21% volumetric rate with the produced bitumen for the three months ended March 31 2017.
2. Realized bitumen revenue is used to calculate realized bitumen revenues per barrel and operating netbacks.

Diluent is blended with the bitumen as part of the production process to create a marketable dilbit blend product at West Ells. During the three months ended March 31, 2017, the Company's dilbit revenue was $3.0 million, which included $1.1 million of added diluent and resulted in realized bitumen revenue of $1.9 million The first quarter of 2017 is the first quarter in which the Company recorded the dilbit revenue from West Ells Phase I project.

Royalties

	For the three months ended March 31,	
($ thousands)	**2017**	**2016**
Royalties	20	-
Percentage of realized bitumen sales	1%	-

The royalty rate at West Ells is based on price sensitive royalty rates set by the Government of Alberta. The current royalty rate at West Ells is based on pre-payout oils sands operations which is calculated and paid monthly at a rate of 1% of the project's gross revenue from bitumen sales; and increases for every dollar that WTI crude oil price in Canadian dollars is priced above $55 per barrel, to a maximum of 9% when WTI Crude oil price is $120 per barrel or higher. The average royalty rate for West Ells was 1% for three month ended March 31, 2017.

Diluent

	For the three months ended March 31,	
($ thousands)	**2017**	**2016**
Diluent cost	1,090	-

At West Ells, diluent is blended at a 21% volumetric rate with the bitumen as part of the production process to create "Dilbit" blend product. For the three month ended March 31, 2017, the dilbit sold was blended with 14,739 barrels of diluent at a cost of $1.1 million.

Transportation

	For the three months ended March 31,	
($ thousands)	**2017**	**2016**
Transportation	1,153	-

The Company's transportation expense in the three months ended March 31, 2017 was $1.2 million. Transportation cost includes trucking costs for dilbit and diluent, and pipeline terminals fees.

Operating Costs

	For the three months ended March 31,	
($ thousands)	**2017**	**2016**
Natural gas costs	508	-
Other operating costs	1,708	-
Operating costs	2,216	-

Operating Costs (continued)

The Company incurred operating cost of $2.2 million during three months ended March 31, 2017. A substantial amount for the operating cost is fixed costs. As a result, the operating cost at West Ells will be decrease as production ramps up.

General and Administrative Costs

	For the three months ended March 31,							
		2017				2016		
($ thousands)		Total	Capitalized	Expensed		Total	Capitalized	Expensed
Salaries, consulting and benefits	$	2,618	232	2,386	$	2,905	776	2,129
Rent		615	151	464		551	202	349
Legal and audit		564	-	564		716	-	716
Other		919	17	902		651	18	633
Total	$	4,716	400	4,316	$	4,823	996	3,827

General and administrative expenses, which include salaries, consulting and benefits, rent, and other general and administrative costs, for the three-month period ended March 31, 2017 increased by $0.5 million from $3.8 million to $4.3 million compared to the same period in 2016. The increase is primarily the result of an increase in salaries, consulting and benefits of $0.3 million, and an increase in other costs of $0.3 million, offset by a decrease in legal and audit costs of $0.1 million.

The Company capitalized a portion of the general and administrative cost for the first two months of the quarter. Effective March 1, 2017. The Company ceased the capitalization of portions of the general and administrative cost.

Finance Costs

	For the three months ended March 31,			
($ thousands)		2017		2016
Interest expense on senior secured notes	$	8,960	$	6,240
Interest expense on shareholder loan		-		37
Amortization of financing transaction costs and discount		-		3,665
Redemption/yield maintenance premium		4,722		4,347
Financing related costs		505		46
Other interest expense		6		3
Unwinding of discounts on provisions		274		260
	$	14,467	$	14,598

For the three months period ended March 31, 2017, finance costs decreased by $0.1 million compared to the same period in 2016, due to a decrease in the amortization of financing transaction costs on the Notes of $3.7 million, offset by a $2.7 million increase in interest expense, a $0.4 million increase in the yield maintenance premium, and a $0.5 million financing related costs.

Share-based Compensation

	For the three months ended March 31,					
	2017			2016		
($ thousands)	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	996	17	979	252	91	161

Share-based compensation for the three months period ended March 31, 2017 was $1.0 million compared to $0.2 million for the same period in 2016. The fair value of share-based compensation associated with the granting of stock options, is recognized by the Company in its consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model.

Share-based Compensation (continued)

The Company capitalizes a portion of the share-based compensation using the same methodology associated with capitalized salaries and benefits for the first two month of the quarter. Effective March 1, 2017, the Company ceased capitalization of portions of the share-based compensation.

Other Income

	For the three months ended March 31,	
($ thousands)	2017	2016
Interest income	$ 5	$ 13
Gain on sale of assets	-	2
Fair value adjustment on share purchase warrants	-	3
	$ 5	$ 18

Depreciation, Depletion and Impairment

	For the three months ended March 31,	
($ thousands)	2017	2016
D&D for West Ells	1,743	-
D&D for Corporate Assets	123	151
Total	1,866	151

The Company commenced recording depletion of West Ells assets in the statement of comprehensive loss for the three months ended March 31, 2017. As at February 28, 2017, the West Ells assets of $687.1 million were not being depleted as the project was in start up phase.

In determining the Unit-of-production depletion charge on recoverable reserves, future development costs of $2,702 million were included in property, plant and equipment.

As at March 31, 2017, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at the previous year end) of the E&E Assets or the West Ells CGU.

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three month periods ended March 31, 2017 and 2016. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At March 31, 2017, the Company had total available tax deductions of approximately $1.2 billion, with unrecognized tax losses that expire between 2028 and 2035.

Capital Expenditures

	For the three months ended March 31,	
($ thousands)	2017	2016
Exploration and evaluation	227	307
Property, plant and equipment		
West Ells	4,166	9,530
Corporation	286	(15)
Total	4,679	9,822

For Capital expenditures made on exploration and evaluation assets and property, plant and equipment for three month ended March 31, 2017 are $4.7 million in total, including a $0.4 million for total capitalized general and administration and share based compensation, and $2.6 million for all the West Ells revenue and associated expenses capitalized in the first two months of the quarter For the three months ended March 31, 2016, total capital expenditures was $9.8 million including $5.7 million capitalized all West Ells associated expenses.

Liquidity and Capital Resources

($ thousands)		March 31, 2017		December 31, 2016
Working capital deficit[1]	$	325,736		319,304
Shareholders' equity		603,580		607,455
	$	929,316	$	926,759

1. Senior secured notes are considered current as at March 31, 2017 and have been included in the working capital deficit as the maturity date is August 1, 2017.

On August 8, 2014, the Company completed an offering of USD $200 million senior secured notes (the "Notes") at an offering price of USD $938.01 per USD $1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below. Interest payments are payable semi-annually on February 1 and August 1 of each year.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD $50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement include: (a) payment on October 17, 2016 of the yield maintenance premium payment of $19.1 million (Note 20) due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD $22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Corporation for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On February 1, 2017, the payment of accrued interest and repurchase of USD $22.5 million were not met.

On March 21, 2017, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement Agreement (the "FRA"). The principal payment terms of the FRA include: (i) Payment of 20% of the Yield Maintenance Premium (the "YMP") originally due on August 1, 2016 by cash; (ii) 80% of the YMP will be repaid on August 1, 2017 as the bond matures; (iii) Payment of 20% accrued interest and forbearance fees due on February 1, 2017 by cash and the remaining amount to be repaid on August 1, 2017 as the bond matures; and (iv) Regarding the USD $22.5 million of principal repayment which fell due on February 1, 2017, both parties agreed to defer the repayment as follows: USD $5.0 million and USD $10.0 million are to be repaid by the end of April 2017 and June 2017 respectively. The remaining amount shall be repaid on or before the maturity date of the bond, i.e. August 1, 2017. In addition, the Company and certain noteholders entered into a Note Exchange Agreement (the "NEA") whereby the Company agreed to repay bond principal of up to USD $8.9 million by issuance of shares.

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At March 31, 2017, the Company had incurred $10.7million (USD $8.1 million equivalent using the period end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of $1USD = $1.3322CAD.

Liquidity and Capital Resources (continued)

The Company's strategy is to access sufficient capital, through equity issuances, monetization, joint ventures and the utilization of debt, in order to maintain a capital base that properly supports the objectives of maintaining financial flexibility and of sustaining future development of the business. The Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital deficiency levels. The Company's liquidity may be adversely affected if the Company's access to the capital markets is hindered because of financial market conditions generally, or as a result of conditions specific to the Company.

There is a material risk that the Company will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes. Management continually monitors the Company's financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders,creditors, and prospective investors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following March 31, 2017.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at March 31, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

The Condensed Consolidated Interim Financial Statements have been prepared on a basis which asserts that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Company is unable to meet its obligations as they fall due the preparation of these Financial Statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and balance sheet classifications may be necessary and such adjustments could be material. Specifically, in the absence of additional financing and the restructuring of current debt (Note 10) the Company would be unlikely to be able to continue the development of the West Ells project and the Company would be required to consider divestiture of the West Ells project and other exploration assets. Such curtailment of activity would likely materially and negatively impact the Company's assessment of the carrying values of assets and liabilities associated with the West Ells project.

The Company's ability to continue as a going concern is dependent on its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Group's ability to continue as a going concern.

For the three months ended March 31, 2017, the Company reported a net loss of $21.6 million. At March 31, 2017, the Company had a working capital deficiency of $326.2 million including senior notes of $266.4 million and an accumulated deficit of $728.7 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 40% as at March 31, 2017, compared to 39% as at December 31, 2016.

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt, which is denominated in US dollars.

For the three months ended March 31, 2017, the Company had a foreign exchange gain of $1.9 million compared to a $16.1 million gain in the same period in 2016. The change in foreign exchange for the three months period ended March 31, 2017, was due to a $1.9 million unrealized gain associated primarily with the translation of the US denominated Notes.

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2017. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and

Liquidity and Capital Resources (continued)

restricted cash held at March 31, 2017 would have been impacted by $0.1 million and the carrying value of the senior notes at March 31, 2017 would have been impacted by $2.7 million. At March 31, 2017 the Company held approximately USD $1.6 million or $2.2 million of cash, using the March 31, 2017 exchange rate of $1USD = $1.3322CAD, as cash, cash equivalents in the Company's US bank account.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at March 31, 2017 would have been impacted by approximately $0.1 million. At March 31, 2017, the Company held, after recent equity closings, approximately HKD $39.1 million or $6.7 million using the March 31, 2017 exchange rate of $1CAD = $5.8337HKD, as cash in the Company's HKD bank account.

Cash Flows Summary

	For the three months ended March 31,	
($ thousands)	**2017**	**2016**
Cash provided by/ used in operating activities	$ 8,460	$ (6,056)
Cash provided by/used in investing activities	(15,155)	12,671
Cash provided by/used in financing activities	6,721	(11,637)
Effect of exchange rate changes on cash held in foreign currency	(785)	37
Decrease in cash	(759)	(4,985)
Cash and cash equivalents, beginning of period	13,635	6,545
Cash and cash equivalents, end of period	$ 12,876	$ 1,560

Operating Activities

Net cash provided by operating activities for the three months period ended March 31, 2017 was $8.5 million compared to cash used of $6.1 million in 2016, an increase of $14.5 million. Net cash used for operating activities included an increase in working capital deficiency of $14.3 million for the three months period ended March 31, 2017 compared to a decrease in working capital of $1.6 million for the same period in 2016.

Investing Activities

Net cash used in investing activities for the three months period ended March 31, 2017 primarily consisted of $4.7 million in capital investment and a $10.5 million decrease in the net change in non-cash investing working capital.

Net cash used in investing activities for the three months period ended March 31, 2016 primarily consisted of the release of restricted cash of $13.8 million, offset by payments for property, plant and equipment of $9.8 million, and an $8.7 million increase in the net change in non-cash investing working capital.

Financing Activities

Net cash provided by financing activities for the three months period ended March 31, 2017 totalled $6.7million, which consisted of proceeds from the issuance of common shares of $16.7 million less the payment of $0.4 million in share issue cost, offset by finance costs of $14.2 million, and an increase $4.6 million in the net change in non-cash financing activities.

Net cash used in financing activities for the three months period ended March 31, 2016 totalled $11.6 million, which consisted of proceeds from a loan from a shareholder of $5.8 million, less finance costs of $10.7 million, and an decrease $ 6.8 million in the net change in non-cash financing activities.

Commitments and Contingencies

Information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. As at March 31, 2017, the Company's estimated commitments are as follows:

($ thousands)		Total	2016	2017	2018	2019	Thereafter
Repayment of long-term debt[1]	$	266,440	266,440	-	-	-	-
Interest payments on long-term debt[2]		16,519	16,519	-	-	-	-
Redemption premium[3]		19,445	19,445	-	-	-	-
Shareholder loan		3,397	3,312	85	-	-	-
Drilling, other equipment and contracts							
Lease rentals[4]		9,038	1,205	1,402	1,414	1,414	3,603
Office leases		5,374	2,149	2,580	645	-	-
	$	320,213	309,070	4,067	2,059	1,414	3,603

1. Principal amount of Notes based on the period end exchange rate of $1USD = $1.3322CAD and a maturity date of August 1, 2017.
2. Based on 10% on principal amount and 2.5% on the principal amount of the notes held by the Forbearing Holders per annum and a maturity date of August 1, 2017, at the period end exchange rate of $1USD = $1.3322CAD.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2017. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2017. Using the period end exchange rate of $1USD = $1.3322CAD this premium amounts to $19,445. At March 31, 2017, the Company had the option to redeem the Notes at 4.084% of the aggregate principal amount of the Notes outstanding which amounts to $6,265 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2017 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require Sunshine to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the share subscription agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the condensed consolidated interim financial statements for the three months period ended March 31, 2017 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated. In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance.

Transactions with Related Parties

For the three months ended March 31, 2017, a consulting company, to which a director of Sunshine is related, charged the Company $0.1 million (the three months ended March 31, 2016 - Nil) for management and advisory services.

In 2016, the Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company and he has also loaned the Company funds on an unsecured basis.

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan was considered Permitted Debt under the Company's Notes as long as it did not exceed USD $5.0 million. The Loan had an interest rate of 6.0% per annum, can be drawn up to HKD $38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement ("Second Loan") was signed effective April 14, 2016 with Tai Feng. This Second Loan had the same interest rate and repayment terms as the Loan, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loan and Second loan, (principle and interest) were converted into the equity through private placements (Note 13). As at December 31, 2016 and March 31, 2017, both the Loan and Second loan balances were Nil.

Off-balance Sheet Arrangements

The Company has certain lease agreements which are reflected in the table above under the heading "Commitments and contingences". No asset or liability value was assigned to these agreements on the Company's balance sheet. As at March 31, 2017, the Company did not have any other off-balance sheet arrangements.

Subsequent Events

On April 5, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CDN $5,861,054.36. On April 13, 2017 the Company completed the closing a total of 147,874,000 shares to the Creditor at an issue price of HKD $0.241 per Common Shares (approximately CAD $0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The issued Common Shares in this transaction are subject to a four months holding period.

Summary of Quarterly Results

The following table summarizes selected unaudited financial information for the Company for the last eight quarters:

($ thousands except per share)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Bitumen Production (bbl/d)[1]	1,796	-	-	-	-	-	-	-
Petroleum sales net of royalties	3,005	-	-	-	-	-	-	-
Royalties	20	-	-	-	-	-	-	-
Transportation	1,153	-	-	-	-	-	-	-
Operating costs	2,216	-	-	-	-	-	-	-
Finance cost	14,467	13,901	18,606	15,415	14,598	17,857	10,641	9,891
Cash flow from operations[2]	(5,800)	(2,959)	(2,692)	(3,464)	(4,457)	(4,644)	(5,853)	4,152
Net loss	21,169	23,237	26,564	20,736	2,773	325,761	30,413	19,122
Per share - basic and diluted	0.00	0.00	0.01	0.00	0.00	0.08	0.01	0.00
Capital expenditures[3]	4,679	8,690	12,038	6,939	9,822	28,823	37,104	39,322
Total Assets	1,000,484	997,590	985,274	974,881	964,751	973,181	1,253,525	1,238,559
Working Capital Deficiency[4]	325,736	319,304	314,853	311,024	298,144	286,121	240,191	195,087
Shareholder' equity	603,580	607,455	603,348	595,286	601,577	604,098	917,110	924,219

1. Bitumen Production volume for the one month ended March 31, 2017.
2. Cash flow from operations is a non-GAAP measure which is defined in the Advisory section of the MD&A.
3. Included payments for exploration and evaluation, property, plant and equipment.
4. The working capital deficiency includes the USD $200 million current portion of the Notes converted to CAD at each period end exchange rate.

Changes in Accounting Policies

For the three months period ended March 31, 2017 there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for the year ended December 31, 2016.

Critical Accounting Policies and Estimates

The Company's critical accounting estimates are those estimates having a significant impact on the Company's financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change.

For a detailed discussion regarding to the Company's critical accounting policies and estimates, please refer to The Company's 2016 annual MD&A.

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2016, which is available at www.sedar.com. The 2016 annual report of the Company is available at the Company's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Company's 2016 Annual Information Form is available at www.sedar.com.

Disclosure Controls and Procedures

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, Chief Financial Officer, have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Internal Controls over Financial Reporting

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, Chief Financial Officer, have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Company used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

No material changes in the Company's ICFR were identified during the three months period ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

ADVISORY SECTION

Forward-Looking Information

Certain statements in this MD&A are forward-looking statements that are, by their nature, subject to significant risks and uncertainties and the Company hereby cautions investors about important factors that could cause the Company's actual results to differ materially from those projected in a forward-looking statement. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will", "expect", "anticipate", "estimate", "believe", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "objective", "target", "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this MD&A), uncertainties and other factors some of which are beyond the Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, the Company strongly cautions investors against placing undue reliance on any such forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the resources and reserves described can be profitably produced in the future. Further, any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

All forward-looking statements in this MD&A are expressly qualified by reference to this cautionary statement.

Non-IFRS Financial Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as operating netback, cash flow used in operations, operating loss and operating cash flow are non-GAAP measures. The MD&A also includes disclosure required under the Hong Kong Listing Rules, such as debt to asset ratio. These financial measures are not defined by International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and, therefore, are referred to as non-IFRS measures. The non-IFRS measures used by the Company may not be comparable to similar measures presented by other companies. These non-IFRS measures should not be considered as an alternative to or more meaningful than net income or net cash used in operating activities, as determined in accordance with IFRS.

Operating Netback

Operating "Netback" is defined as petroleum sales, net of royalties less diluent costs, less operating costs and less transportations costs. The following is reconciliation to the nearest IFRS measurement:

		For the three months ended March 31,		
($ thousands)		**2017**		**2016**
Petroleum sales, net of royalties	$	2,985		-
Diluent Cost		(1,090)		-
Operating costs		(2,216)		-
Transportation costs		(1,153)		-
Operating netback	$	(1,474)		-

Cash Flow Used in Operations

Cash flow used in operations is non-GAAP measure utilized by the Company to analyze operating performance and liquidity. Cash flow used in operations excludes the net change in non-cash operating working capita and decommissioning expenditures while the IFRS measurement "Net cash used in operating activities" includes these items. Cash flow used in operations is reconciled to Net cash used in operating activities in the table below:

		For the three months ended March 31,		
($ thousands)		**2017**		**2016**
Net cash used in operating activities	$	8,460	$	(6,056)
Add (deduct)				
Net change in non-cash operating working capital items		(14,260)		1,599
Cash flow used in operations	$	(5,800)	$	(4,457)

Additional Stock Exchange Information

Additional information required by the SEHK and not shown elsewhere in this announcement is as follows:

Code of Corporate Governance Practice (the "Code")

The Company is committed to maintaining high standards of corporate governance. The Company recognizes that corporate governance practices are fundamental to the effective and transparent operation of a company and its ability to protect the rights of its shareholders and enhance shareholder value.

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Hong Kong Listing Rules"), has been complied with following its public listing, save that the Company has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Company will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis by the shareholders of the Company at each annual general meeting, which is consistent with the market practice in Canada.

Compliance with the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code")

The Company confirms that it has adopted the Model Code, as set out in Appendix 10 to the Hong Kong Listing Rules, following its public listing. Having made specific enquiry with all directors, the directors have confirmed and compiled with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Purchase, Sale or Redemption of Sunshine's Listed Securities

On January 17, 2017 the Company entered into a subscription agreement for a total of 60,000,000 class "A" common shares at a price of HKD $0.262 per share (approximately CAD $0.045 per common share), for gross proceeds of HKD $15.7 million (approximately CAD $2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $117,900 (approximately CAD $0.02 million), was incurred in relation to the Closing.

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class "A" common shares at a price of HKD $0.283 per share (approximately CAD $0.050 per common share), for gross proceeds of HKD $70 million (approximately CAD $12.1 million). On March 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $525,000 (approximately CAD $0.09 million), was incurred in relation to the Closing.

On December 28, 2016, the Company entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited ("Zhengwei") under which Zhengwei agreed to subscribe for a total of up to 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HKD $0.29 per Common Share or approximately CAD $0.048 per Common Share, which in the aggregate amounts to gross proceeds of HKD $43.5 million (approximately CAD $7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares HKD $0.29 (approximately CAD $0.050 per Common Share). The Company received total gross proceeds of HKD $11.6 million (approximately CAD $2.0 million). The subscription agreement expired on the date of this announcement and hence the time for the completion of the remaining 110,000,000 Common Shares has lapsed.

On April 5, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CDN $5,861,054.36. On April 13, 2017 the Company completed the closing a total of 147,874,000 shares to the Creditor at an issue price of HKD $0.241 per Common Shares (approximately CAD $0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The issued Common Shares in this transaction are subject to a four months holding period.

Shares Outstanding

As at May 11, 2017, the Company had 5,490,825,358 Common Shares and 258,140,962 stocks options issued and outstanding.

Summary of Financial Statements and Notes

The Board of Directors of the Company announces the results of the Company and its wholly owned subsidiaries, for the three months period ended March 31, 2017, together with comparative figures for the appropriate periods in 2016 as follows:

Condensed Consolidated Statements of Financial Position

	March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash	$ 12,876	$ 13,635
Trade and other receivables	4,624	2,654
Prepaid expenses and deposits	2,259	5,054
	19,759	21,343
Non-current assets		
Exploration and evaluation	292,237	291,716
Property, plant and equipment	688,488	684,531
	980,725	976,247
	$ 1,000,484	$ 997,590
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and accrued liabilities	$ 78,474	$ 71,526
Provisions	581	581
Current portion of long-term debt	266,440	268,540
	345,495	340,647
Provisions	51,409	49,488
	396,904	390,135
Net current assets	(325,736)	(319,304)
Total assets less current liabilities	654,989	656,943
Shareholders' Equity		
Share capital	1,263,600	1,247,302
Reserve for share-based compensation	68,258	67,262
Deficit	(728,278)	(707,109)
	603,580	607,455
	$ 1,000,484	$ 997,590

Condensed Consolidated Statements of Operations and Comprehensive Loss

For the three months ended March 31,	Notes		2017		2016
Revenues and Other Income					
Petroleum revenue, net of royalties	15	$	2,985	$	-
Other income	16		5		18
			2,990		18
Expenses					
Diluent	8		1,090		-
Transportation	8		1,153		-
Operating	8		2,216		-
General and administrative	7, 8		4,316		3,827
Finance costs	17		14,467		14,598
Stock based compensation	14.2		979		161
Foreign exchange (gains)/losses	19.3		(1,928)		(16,088)
Contract Provision Expense	11.2		-		142
Depletion, depreciation and impairment	7, 8		1,866		151
		$	24,159	$	2,791
Loss before income taxes			21,169		2,773
Income taxes	12		-		-
Net loss and comprehensive loss		$	21,169	$	2,773
Basic and diluted loss per share	18	$	0.004	$	0.001

Notes

1. Basis of Preparation

These condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The condensed consolidated interim financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Hong Kong Listing Rules.

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, measured at fair value. The consolidated financial statements are presented in Canadian Dollars ("$"), which is the functional currency of the Company.

The condensed consolidated interim financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiary, Sunshine Oilsands (Hong Kong) Ltd. ("Sunshine Hong Kong"). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements when control is achieved and until control is lost. All inter-company transactions, balances, revenues and expenses are eliminated in full on consolidation. On July 14, 2015, Boxian was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. On March 24, 2017, Sang Xiang Petroleum & Chemical (Shanghai) Limited ("Sunshine Shanghai") was incorporated in China and is a wholly owned subsidiary of the Company. No activity has yet occurred in Boxian and Sunshine Shanghai as at the date of this MD&A.

Notes (continued)

2. Segment Information

The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

3. Trade Receivables

The Company's trade and accruals and other receivables mainly arise from reimbursable expenditures and goods and services tax receivables due from government taxation authorities. These are summarized as follows:

		March 31, 2017		December 31, 2016
Petroleum Receivable	$	2,407	$	-
Trade Receivable		2,084		1,434
Other		133		1,220
	$	4,624	$	2,654

The Company allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables at the end of the reporting period:

		March 31, 2017		December 31, 2016
0 - 30 days	$	2,579	$	1,205
31 - 60 days		64		1
61 - 90 days		5		11
>90 days		1,976		1,437
	$	4,624	$	2,654

4. Trade Payables

Trade payables and accrued liabilities mainly represent payables to subcontractors for development, engineering, procurement and construction services. The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting period:

		March 31, 2017		December 31, 2016
Trade				
0 - 30 days	$	2,450	$	4,514
31 - 60 days		684		1,343
61 - 90 days		465		750
> 91 days		24,176		20,734
		27,775		27,341
Accrued liabilities		50,699		44,185
	$	78,474	$	71,526

5. Dividends

The Company has not declared or paid any dividends in respect of the three months period ended March 31, 2017 (three months period ended March 31, 2016 - $Nil).

Notes (continued)

6. Income Taxes

The components of the net deferred income tax asset are as follows:

		March 31, 2017		December 31, 2016
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	$	(140,299)	$	(119,980)
Decommissioning liabilities		13,880		13,362
Share issue costs		1,629		1,754
Non-capital losses		207,348		193,894
Deferred tax benefits not recognized		(82,558)		(89,030)
	$	-	$	-

The Company's non-capital losses of $767,995 (December 31, 2016 - $718,126), expire between 2028 and 2035.

The Company is subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 27.0%. The Company had no assessable profit in Canada for the three months period ended March 31, 2017. The Company files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable. The estimated tax deductions available to the Company in Canada are approximately $1.2 billion. The Company's tax losses will begin expiring in 2028.

The Company's subsidiary, Sunshine Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong for the three months period ended March 31, 2017.

Review of interim results

The condensed consolidated interim financial statements for the Company for the three months period ended March 31, 2017, were reviewed by the Audit Committee of the Company and approved by the Board.

Publication of Information

This annual results announcement is published on the websites of SEDAR (www.sedar.com), the SEHK (www.hkexnews.hk) and the Company's website at www.sunshineoilsands.com.

This announcement is prepared in both English and Chinese and in the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.